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GAIN Report

Global Agricultural Information Network

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Approved By:

Emiko Purdy

Prepared By:

Gaspar Nolte and Donna Pahl

Report Highlights:

The U.S.-Peru Trade Promotion Agreement (PTPA) had its second year anniversary on February 1, 2011. U.S. agricultural exports to Peru reached \$760 million in 2010, an all-time record. Both winners and disappointments were identified, as well as product markets that may be specifically targeted for improvement

Executive Summary: The U.S.-Peru Trade Promotion Agreement (PTPA) had its second year anniversary on February 1, 2011. Before PTPA, less than 2 percent of U.S. agriculture exports had duty-free access into Peru. Upon implementation of the agreement, over two-thirds of the tariffs were dropped immediately, and the remaining tariffs are being phased out over the course of several years. U.S. agricultural exports to Peru reached \$760 million in 2010, an all-time record. The 47 percent increase in agricultural exports from 2009 to 2010 was driven by several agricultural products. Both winners and disappointments were identified, as well as product markets that may be specifically targeted for improvement

General Information:

Major winners

Cotton

U.S. exports of un-carded and uncombed cotton to Peru increased by 112 percent in 2010 to \$147.8 million. The quantity of cotton exports reached 75,829 MT in 2010, a 56 percent increase from 2010. U.S. cotton accounts for over 99 percent of the Peruvian cotton market. Exports of cotton to Peru have increased due to a decrease in local production, as well as an increase in textile sales.

Cotton imports to Peru face a 9 percent duty. Under the PTPA, U.S. imports are granted unlimited duty-free access.

Yellow Corn

In 2010 U.S. corn exports to Peru reached 642,124 MT, an 11 percent increase from 2009. The market share of U.S. corn in Peru is 33 percent. Yellow dent corn represented the majority of U.S. corn exports with 641,738 MT. Between 2009 and 2010, the value of yellow dent corn increased by 12 percent to a value of \$109.2 million. Yellow corn sales increased as a result of a tariff rate quota (TRQ) which gives U.S. exports an edge against Argentine corn, U.S. corn's main competitor in the Peruvian market. An additional benefit of the TRQ on yellow corn is the increase of U.S. soybean exports which increased by 56 percent from in 2010. Yellow corn shipments are often supplemented with soybeans in order to fill the cargo bins.

Yellow dent corn imports to Peru face a duty of 9 percent. Through the PTPA, U.S. imports are granted a duty-free TRQ of 530,000 MT in the second year. The TRQ is scheduled to increase 6 percent annually, until reaching unlimited duty-free status in the twelfth year.

In early 2011 Peru dropped the import tariff for yellow corn to 0 percent. This nulls the TRQ under the PTPA, and will likely result in the United States losing its competitive edge in the Peruvian yellow corn market.

Dairy products

In 2010 exports of dairy products from the United States to Peru reached \$37.4 million. Exports of milk powder not exceeding 1.5 percent fat accounted for the majority of these exports. Peru imported 8,883 MT of milk powder in 2010, a 971 percent increase from 2009 exports. These U.S. exports topped a value of \$23.6 million, and accounted for 48 percent of the Peruvian market share of dairy products. The increase in dairy product sales is likely due to the TRQ. The price of milk powder in the United States in 2010 (\$2,681.11/MT) was comparable to that of New Zealand (\$2556.57/MT) and Chile (\$2881.38/MT), the other major exporters of milk powder to Peru.

In 2010, imports of dairy products into Peru were subject to an import tax of 0 percent. Under the PTPA, U.S.

exports of milk powder were granted duty-free access for the first 2,186 MT exported in year two. As of December 31, 2010, imports of all dairy products into Peru are not subject to an import tax.

Red meats

U.S. exports of standard quality beef increased in 2010. Per the PTPA, standard quality beef refers to both frozen and fresh boneless beef, and frozen bone-in beef. In 2010, exports of fresh boneless beef increased by 126 percent over 2009 to 260 MT. Frozen boneless beef exports increased to 198 MT, and frozen bone-in beef increased to 137 MT, accounting for increases of 84 percent and 38 percent, respectively. Exports of standard quality meats increased in 2010, due to the TRQ.

Imports of standard quality beef faced, until recently, 13 percent import duty when entering Peru. Under the PTPA, standard quality beef is given duty-free status for a certain quantity.

In 2011 Peru reduced the import duty of all standard quality beef to 11 percent. Although this is not a significant reduction, this may decrease the United States' competitiveness in the Peruvian beef market.

Poultry meat

U.S. exports of poultry meat to Peru reached 5,326 MT, a value of \$5.5 million in 2010. Poultry leg quarters accounted for a majority of these exports. In 2010, the United States exported 2,343 MT of chicken leg quarters to Peru, an increase of 439 percent increase from 2009. The United States has a 26 percent market share for chicken leg quarters. The second largest category of poultry meat exported into Peru is frozen chicken meat. In 2010 exports of frozen chicken meat increase by 403 percent, reaching 2,157 MT. The significant increase in exports of chicken leg quarters resulted from the TRQ, which allows the United States to export a certain quantity into Peru, duty-free. Until the PTPA, Chile exported the majority of chicken leg quarters to Peru due to cheaper prices.

Chicken leg quarters are subject to a 6 percent import tax when entering Peru. Under the PTPA, U.S. exports of chicken leg quarters were granted duty-free access for the first 12,960 MT in year two. The TRQ will decrease yearly, until year 12 when full duty-free access is granted. Frozen chicken meat is subject to a 6 percent import tax, although under the PTPA, duties will be removed in five linear steps.

Snack Food and Breakfast Cereals

U.S. exports of snack food exports reached a value of \$20 million in 2010. The majority of snack food exports were chocolate and cocoa-based food products and preparations, which increased by 37.3 percent between 2009 and 2010. Breakfast cereal exports increased by 176 percent between 2009 and 2010, accounting for a total of \$751,000 in sales.

Snack food imports into Peru face a 6 percent import duty; however, under PTPA, import duties for U.S. exports will be eliminated in 10 tranches. Breakfast cereals are subject to a 6 percent import tax. Under the PTPA, import duties on breakfast cereals from the United States will be decreased in five linear steps.

Smaller Players

Live animals

Exports of live animals from the United States to Peru totaled \$7.1 million in 2010. Baby chicks comprised the largest category of live animals exported—2.1 million birds with a value of \$5.8 million. This is a 1 percent decrease in quantity from the number of poultry chicks exported in 2009. The United States has 52 percent of the market share in Peruvian imports of poultry chicks. The second most important category within live animal exports is live horses, donkeys, and mules. A total of 177 animals were exported in 2010, with a value of \$1.3

million.

There is no import duty for live poultry into Peru. Horses face a 6 percent import duty; however, the PTPA grants unlimited duty free access to those animals from the United States.

Processed fruits and vegetables

U.S. imports of processed fruits and vegetables were \$6.1 million in 2010. The largest group under this category was frozen french fries, in which 1,881 MT were exported, a 34 percent increase from 2009. Raisins accounted for the second largest group of exported fruits and vegetables, with 508 MT exported in 2010, a significant increase over 2008 and 2009, when no raisin imports occurred.

Pulses

Exports of U.S. pulses to Peru reached 22,673 MT in 2010, an 11 percent increase from 2009. U.S exports accounted for 32 percent of the Peruvian market share for pulses. The increases in exports were due to two major pulses: dried lentils and split peas.

During 2010, exports of U.S. dried shelled lentils to Peru reached a quantity of 10,475 MT, an 18 percent increase from 2009. In 2010, the value of lentils reached \$8.1 million. Exports of split peas reached a quantity of 8,093 MT in 2010, a 3 percent increase from 2009. The value of split pea exports to Peru surpassed \$3.7 million in 2010.

Both peas and lentils face a 9 percent import duty. The PTPA grants unlimited duty free access to those products imported from the United States.

Tree nuts

Exports of tree nuts, most notably almonds and pistachios, reached 392 MT in 2010. Exports of almonds increased by 50 percent between 2009 and 2010, accounting for a value of \$1.7 million.

Pet foods

Pet food exports increased by 62 percent from 2009 to 2010. Pet food exports consisted mostly of dog and cat food and pet food preparations. Exports reached \$5.5 million in 2010.

TRQ Filling Rates

Product	Origin	HTS	TRQ (MT)	Filled Rate
Beef: Standard Quality	United States	0201303550 0201306000 0202203550 0202206000 0202306000 0202303550	848.00	70.2%
Beef: Variety Meats (Offals)	United States	0206220000 0206290090 0206290010	10,600.00	49.9%
Chicken Leg Quarters	United States	0207140010	12,960.00	18.1%
Yogurt	United States	0403100000	77.00	6.5%
Dairy: Processed Products	United States	0403900000	2,200.00	0.0%
Butter	United States	0405100000 0405200000	550.00	3.6%

Cheese	United States	0406100000 0406901000 0406300000 0406200000	2,800.00	25.2%
Rice	United States	1006309010 1006309030 1006309020 1006204040 1006400000	78,440.00	5.1%
Soybean Oil: Refined	United States	1507904050	7,350.00	0.0%
Ice Cream	United States	2105000010	330.00	10.9%
Corn: Yellow	United States	1005902030	530,000.00	100.0%
Milk: Powdered	United States	0402101000	5,186.00	100.0%

Other Success Stories

Several other U.S. agricultural products performed well in the Peruvian import market in 2010. Since the products below are granted duty-free access in all exporting countries, the advantages of these U.S. products are due to high product quality, low cost, and high availability, or a combination of these factors.

Wheat

U.S. exports of wheat to Peru increased 114 percent in 2010, reaching a quantity of 799,416 MT, accounting for over \$17.2 million in sales, a 112 percent increase from 2009. The U.S. market share in wheat increased from 24 percent to 48 percent in 2010. The high quality of U.S. wheat makes it a desirable import. Additionally, the U.S. Wheat Associates, a cooperator group based in the United States, promotes the product and supplies market information to importers.

The increase in U.S. exports of hard red wheat accounted for the majority of the increase in wheat exports to Peru. Exports of hard red wheat alone reached 792,916 MT in 2010, a 112 percent increase from 2009. White wheat comprised the remaining exports to Peru, reaching 6,500 MT in 2010. This is a significant increase over 2009 when there were no U.S. exports of white wheat to Peru.

Crude Soybean Oil

Exports of U.S. crude soybean oil increased by 32 percent between 2009 and 2010. In 2010, 82,006 MT of crude soybean oil were exported with a value of \$75.5 million. The United States currently has 24 percent of the market share in Peruvian imports of crude soybean oil.

Other consumer oriented

Exports of other consumer-oriented products from the United States reached \$30.6 million in 2010. The largest categories exported were enzymes (236 MT), edible food preparations (849 MT), and hop extracts (90 MT).

Feeds and fodders

Exports of U.S. feeds and fodders to Peru have exhibited a 160 percent increase, reaching values of \$9.4 million. Brewing dregs and waste (such as dried distillers grain and soluble) made up the largest category of exports by quantity: 5,015 MT were exported in 2010. The second largest category of feeds and fodders exported was corn gluten meal at 3,369 MT. Preparations used in animal feed also comprised a significant portion of feed and

fodder exports, at 1,002 MT exported in 2010.

Peruvian imports of corn gluten meal, brewing waste, and feed preparations are subject to no import duties.

Untapped Potential

Despite having lower tariffs and TRQs, several U.S. products have not performed as well as expected in the Peruvian market.

Refined soybean oil and dairy products both have the potential for increased growth in the Peruvian market. A large amount of unrefined soybean oil is imported into Peru, and then refined once in the country. Although there is a TRQ in effect for refined soybean oil, Peru imports the crude oil, which is then refined in-country. The value-added product is then kept within the country for national sale.

Dairy product exports also have room for growth. Although exports of yogurt, processed dairy products, and butter have increased slightly, there is still potential for higher exports within the TRQ.

The export of standard quality beef has increased significantly since 2009 (from a filled rate of 2.3 percent in 2009 to 70.2 percent in 2010). However, the beef variety meats category has plenty of room for growth.

Post is working to increase the market for U.S. agricultural products by working with cooperators, identifying business opportunities for U.S. exporters, and organizing meetings between potential importers and exporters.

Additionally, Post is raising market awareness for U.S. products through education and highlighting consumer preferences, such as increased quality.